

1999 Country Reports on Economic Policy and Trade Practices

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THAILAND

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	1/
<i>Income, Production, and Employment: 2/</i>				
Nominal GDP	150,593	112,758	121,979	
Real GDP Growth (pct) 3/	-1.8	-10.0	3.5	
GDP by Sector				
Agriculture	14,814	13,239	11,496	2/
Manufacturing	44,638	34,660	39,123	2/
Services	22,990	18,197	21,177	2/
Government 4/	15,021	12,200	14,193	2/
Per Capita GDP (US\$)	2,421	1,765	1,965	
Labor Force (000s)	32,840	32,800	33,490	
Unemployment Rate	1.9	4.0	4.2	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth	16.4	9.5	6.4	
Consumer Price Inflation	5.6	8.1	0.5	
Exchange Rate				
Official	31.37	41.37	37.71	5/
<i>Balance of Payments and Trade:</i>				
Total Exports FOB 6/	56,721	52,873	54,988	
Exports to U.S. 6/	11,341	12,167	12,065	7/
Total Imports CIF 6/	61,348	40,641	45,761	
Imports from U.S. 6/	8,714	5,963	6,352	7/
Trade Balance 6/	-4,626	12,232	9,227	
Balance with U.S. 6/	2,627	6,204	5,713	7/
External Public Debt	24,323	31,494	35,500	
Fiscal Balance/GDP (pct)	-2.7	-5.5	-7.2	8/
Current Account/GDP (pct)	-2.0	12.8	9.0	
Debt Service Payments/GDP (pct)	0.8	1.2	N/A	
Gold and Foreign Exchange Reserves	26,968	26,536	34,000	
Aid from U.S. 9/	3.6	5.5	N/A	
Aid from All Other Sources	109.2	105.8	N/A	

1/ Royal Thai Government projections unless otherwise indicated.

2/ Estimate based on six-month data.

- 3/ Percentage changes calculated in local currency.
- 4/ Government expenditure on GDP; for illustrative purposes.
- 5/ Estimate based on ten-month data.
- 6/ Merchandise trade, balance of payments concept.
- 7/ Estimate based on eight-month data.
- 8/ Includes imputed interest of financial sector restructuring.
- 9/ Fiscal year total (October – September).

Sources: Royal Thai Government and U.S. Department of Commerce.

1. General Policy Framework

The government of current Thai Prime Minister Chuan Leekpai has been working to stabilize and reinvigorate the Thai economy since it took office in November 1997. The East Asian economic crisis began in Thailand when a failed effort to defend the baht (the Thai currency) depleted Thailand's foreign exchange reserves and forced the Bank of Thailand to float the currency in July 1997. Over the next six months the baht lost half of its value, and the crisis spread from the financial sector to the real sector. The Thai economy, one of the world's fastest growing up through 1995, tumbled, and real GDP suffered contractions of 1.8 percent and 10 percent in 1997 and 1998 respectively. The financial contagion spread from Thailand to other countries in the region, particularly Korea and Indonesia, impairing Thailand's ability to export its way out of the crisis.

The failed defense of the baht led the government to seek assistance from the IMF, which in August 1997 put together a package worth \$17.2 billion to provide balance of payments support and begin restructuring the Thai economy and financial sector. Under the guidance of Finance Minister Tarrin Nimmanhaeminda, the government has focused considerable effort on restructuring the financial sector. Insolvent institutions, including two-thirds of the country's finance companies, were closed or placed in receivership, and new provisioning requirements were instituted. The crisis and subsequent restructuring have opened the way for increased foreign participation in the financial sector. Foreign banks now own controlling interests in four Thai commercial banks, and two more banks are scheduled to be sold by the end of 1999. Thailand has also passed legislation to reform and streamline the bankruptcy and foreclosure system (including establishing a new bankruptcy court), and auctioned off assets of the closed finance companies to the private sector. Reform legislation still in draft includes a new financial institutions law, a new central bank law, amendments to the Currency Act, and bills to set up a deposit insurance scheme and a credit bureau. Throughout, Thailand has favored a market-oriented private sector-led approach to restructuring the financial sector.

While the government's efforts stabilized the economy and laid the macro-economic foundation for a return to growth by late 1998, the real economy did not respond, and the focus turned to stimulating consumption. With the support of the IMF, the government ran fiscal deficits (after years of balanced or surplus budgets) of 3 percent of GDP in FY 1998 and 6 percent of GDP in FY 1999. An additional stimulus program of 2.8 percent of GDP announced in March 1999 provided funds to create jobs for 485,000, expand government purchases of goods and services by \$1 billion, and decrease the tax burden on middle class income earners and the costs of energy for industrial users. In August 1999 the government announced a further stimulus package of 2.2 percent of GDP to promote private investment. A new Alien Business Law and new investment promotion incentives should also increase Thailand's attractiveness to foreign investors. The economy has responded to these stimulus programs with consumption, exports and imports, and production all recording moderate increases for the first nine months of the year in comparison to 1998 totals. Private investment remains below 1998 activity, but the declines here are slowing. The government is financing the deficit through domestic bond sales and foreign debt and grant assistance.

Current Thai monetary policy aims at maintaining adequate system liquidity and keeping interest rates low in an effort to promote debt restructuring and new lending. The government uses a standard array of monetary policy tools but focuses on open market operations, particularly the repurchase market. Foreign exchange flows have a moderate effect on exchange rate stability. Current government policy does not target a specific level for the baht. However, the government will act to smooth volatility in the exchange rate.

2. Exchange Rate Policy

From 1984 to 1997 the baht was pegged to a basket of currencies of Thailand's major trading partners, with the dollar representing the largest share. The exchange rate averaged 25 baht to the dollar during that period. Following the depletion of Thailand's foreign exchange reserves in an unsuccessful attempt to defend the peg, the currency was allowed to float in July 1997. It began to depreciate immediately and fell to below 50 per dollar in January 1998. As reform measures and IMF support took hold, the baht stabilized and has traded in the 36 to 41 baht per dollar range since March 1998.

The Thai government began liberalizing the exchange control regime in 1990 and accepted IMF Article VIII obligations. Commercial banks received permission to process larger foreign exchange transactions, and ceilings on money transfers were increased. Since 1991 Thai banks have offered foreign currency accounts for residents, although they are limited to \$500,000 for individuals and \$5 million for corporations (without conditions).

After the baht was floated on July 2, 1997 the government tightened conditions on foreign exchange, requiring customers to show evidence of foreign currency obligations (within three months from date of deposit) to open foreign currency accounts. Thailand also required exporters to repatriate and deposit foreign exchange earnings more expeditiously. More recently, the government has restricted the supply of baht to non-resident parties (unless there is an underlying transaction requiring the currency) to cut down on offshore speculation.

3. Structural Policies

The Thai taxation system has undergone significant revision since 1992 when a value added tax (VAT) system was introduced to replace a multi-tiered business tax system. The VAT rate was raised from 7 to 10 percent in 1997 but lowered temporarily back to 7 percent in March 1999 to stimulate private consumption. Exemptions in place for low revenue businesses were expanded in March 1999. Exporters are "zero rated" under the VAT system but must file returns and apply for rebates. Parliament is considering tax credits in lieu of the rebate. The corporate tax rate is currently 30 percent of net profits for all firms.

Thailand and the United States signed a tax treaty in November 1996, and the treaty entered into force in early 1998. The treaty eliminates double taxation and gives U.S. firms tax treatment equivalent to that enjoyed by Thailand's other tax treaty partners.

Heightened awareness in Thailand about "genetically modified organisms" (GMO) issues and concern about increasing barriers to GMO products in Thailand's European markets have led

to a reexamination of Thai government policy towards imports, production, sales, and exports of GMO crops, commodities, and processed foods. Current policy allows imports into Thailand of GMO seeds and plants only for research purposes, but there are no restrictions on imports of GMO commodities or products and no compulsory labeling requirements. The result is a relatively small impact on U.S. exports of GMO products. Although the debate continues, particularly on labeling, we do not expect major changes in this policy over the next year.

4. Debt Management Policies

Thailand's financial crisis resulted in part from significant increases in private sector external debt, but these levels have declined markedly since the onset of the crisis, falling from \$75 billion at the end of June 1997 to \$47 billion at the end of June 1999. Thailand entered the crisis with low levels of public debt, but public sector external debt has risen significantly as the government stabilized and sought to stimulate the economy. At the end of 1997, total public sector external debt (including that of the Bank of Thailand) stood at \$24 billion. By the end of June 1999, the figure had risen to \$34 billion. Public sector debt is predominantly long-term and divided among direct borrowings and loans to state-owned enterprises guaranteed by the government, with the latter predominating.

Mounting public sector debt is a concern in Thailand, and the government is attempting to diversify its sources of funding by developing a domestic bond market. By the end of June 1999, total public sector debt, including the non-guaranteed debt of state-owned enterprises, had climbed to 41 percent of Thailand's GDP. The public debt service ratio (payments as a percent of the exports of goods and services) stood at the end of June 1999 at 3.5 percent, down slightly from the first quarter, but up a full percentage point from the comparable 1996 figure. By way of contrast, the debt service ratio for private sector debt at the end of June stood at 15.5 percent.

Thailand has consistently met the targets and performance criteria elaborated in the \$17.2 billion program agreed with the IMF in 1997. The program will run through May 2000, although Thailand recently announced that it does not intend to take disbursement of the final \$2.7 billion of the package.

5. Significant Barriers to U.S. Exports

Moving to meet its WTO and ASEAN tariff reduction commitments, Thailand instituted reductions in January 1995, and tariffs were reduced on another 4,000 items at the beginning of 1997. However, the decision to accelerate ASEAN's Free Trade Area (AFTA) preferred tariff schedules, taken in Manila in October 1998, has not yet translated into significant liberalization within APEC. Also, the need for revenue in the aftermath of the financial crisis led to the imposition of higher duties, surcharges, and excise taxes on "sin" items and a range of luxury imports, including U.S. wine and beer exports.

At the beginning of 1997, the total number of tariff rate categories was reduced from 39 to six, with the following spread: zero percent on such goods as medical equipment and fertilizer, one percent on raw materials, electronics components, and vehicles for international transport, five percent on primary and capital goods, 10 percent on intermediate goods, 20 percent for

finished products, and 30 percent on goods needing “special protection.” This last category includes agricultural products, autos and auto parts, alcoholic beverages, and a few other “sensitive” items. Import tariff quotas are applied to 23 categories of agricultural products. Further reductions on a range of capital goods and raw materials were announced in August of 1999 as an investment incentive measure and a spur to domestic industries. Tariff exemptions for some items deemed critical to Thai industrial recovery were also announced.

Thailand is in the process of changing its import licensing procedures to comply with its WTO obligations. Import licenses are still required for 26 categories of items, down from 42 categories in 1995-1996. Licenses are required for many raw materials, petroleum, industrial, textile, and agricultural items. Import licenses can be used to protect unproductive local industries and to encourage greater domestic production. Some items that do not require licenses must nevertheless comply with applicable regulations of concerned agencies, are subject to extra fees, or must have certificates of origin.

The Thai Food and Drug Administration issues licenses for food and pharmaceutical imports. This process can be a barrier due to the cost, the length of the process, and occasional demands for proprietary information. Licenses cost about \$600 and must be renewed every three years. Pharmaceutical import licenses cost about \$480 and must be renewed every year. There are also fees for laboratory analysis. Costs of between \$40 to \$120 per item are usual for sample food products imported in bulk. Sealed, packaged foods can cost about \$200 per item. Pharmaceuticals must be registered for a fee of about \$80, and inspected and analyzed for another fee of about \$80 per item. The process can take more than three months to complete.

The government is gradually easing import duties in line with WTO commitments, which may improve market access for some American products. Rice will continue to be protected, but within WTO schedules. Corn and fresh potatoes are subject to a Tariff Rate Quota (TRQ) that limits import levels. The restricted entry period for U.S. corn under the TRQ, generally February to June, usually ensures that it is not competitive in the Thai market.

Even though rates are slated to decline between 35 and 50 percent under WTO rules, duties on many high-value fresh and processed foods remain high. For most U.S. high-value fresh and value-added processed foods, entry into Thailand is still expensive. There are no longer specific duties on most imported agricultural and food products, except wine and spirits, which continue to have very high rates.

Arbitrary customs valuation procedures sometimes constitute a serious barrier to U.S. goods. The Customs Department has used the highest previously declared invoice value as a benchmark for assessing subsequent shipments from the same country. That allows Customs to disregard the invoice value of a shipment in favor of the benchmark amount. This practice has had a particularly damaging effect upon trade in agricultural products, which often have seasonally fluctuating values. However, the government is instituting a program of customs reform that, if adopted successfully, will remedy some of the problems at the ports of entry. These reforms include adoption of the World Customs Organization harmonized code and the use of an Electronic Data Interchange (EDI) system. The pilot program for EDI became operational early in 1998, but thus far affects only export procedures and only in the airport, not

in the seaports. There have been some significant improvements in advance of the full installation of EDI. Expedited procedures for express carriers were instituted during 1998, and customs procedures in the port areas are reported by private industry to be faster and smoother during 1998-1999.

Customs duties are sometimes arbitrary in other ways. For example, import duties on unfinished materials are higher than those on finished goods in some categories, such as automobiles. This is a burden to American firms that manufacture or assemble in Thailand.

Restrictions on the activities of foreign banks have eased since 1994, as have limits on foreign ownership of Thai banks. However, foreign banks' deposits in Thailand still comprise only 4.1 percent of total bank deposits, and foreign banks are still disadvantaged in a number of ways. Foreign banks are limited to three branches (of which two must be outside of Bangkok and adjacent provinces) and there are limits on expatriate management personnel, although foreign bankers here say that requests for additional personnel are customarily approved.

To facilitate recapitalization of the financial sector, the government has raised limits on foreign ownership of domestic banks. In June 1997 the Minister of Finance was empowered to raise the old 25 percent ceiling on foreign ownership of domestic banks, and the Bank of Thailand announced in November 1997 that foreign ownership would be allowed to exceed 49 percent for a period of 10 years. (Foreign investors will not be forced to divest shares after 10 years, but will not be able to purchase additional shares.) The government has also issued additional foreign bank and Bangkok International Banking Facility licenses and authorized foreign bank participation in domestic ATM networks. During the third quarter of 1999 foreign banks purchased 75 percent shares of two domestic banks intervened by the Thai Government. The Government hopes to sell similar stakes in two more intervened banks by the end of 1999.

Foreign ownership of finance companies and securities companies had been limited to 25 percent, but these limits were also raised in the aftermath of the financial crisis. As of May 1998, foreigners may hold majority stakes in Thai securities houses, although there are minimum investment requirements.

The provision of telecommunications services is a government monopoly in Thailand. Private participation is currently limited to concessions in both wireless and fixed line sectors. In November 1997, the government approved a telecommunications master plan that provides an outline of a liberalization program. The government plans to corporatize its two telecom operators, the Telephone Organization of Thailand and the Communications Authority of Thailand, in preparation for seeking strategic partners in the next few years. Full market liberalization will not take place until 2006, as mandated by the WTO.

6. Export Subsidies Policies

Thailand ratified the Uruguay Round agreements in December 1994. Thailand maintains several programs that benefit exports of manufactured products or processed agricultural products and which may constitute export subsidies. These include subsidized credit on some government-to-government sales of Thai rice (agreed on a case-by-case basis), preferential

financing for exporters in the form of packing credits, tax certificates for rebates of packing credits, and rebates of taxes and import duties for products intended for re-export. The Thai EX-IM bank currently offers an 11 (plus 1.5) percent rate on export credits, about one point below the prime rate offered by the large commercial banks.

7. Protection of U.S. Intellectual Property

Improved protection for U.S. copyright, patent, and trademark holders has been an important bilateral trade issue for several years. After passage of a revised Copyright Law in 1994 the U.S. moved Thailand from Priority Watch List to Watch List status. During 1998 the Thai Parliament passed amendments to the Patent Act, abolishing the Pharmaceutical Review Board. Trademark application procedures were streamlined by administrative means.

A specialized intellectual property department in the Ministry of Commerce has cooperated with U.S. industry associations to coordinate both legal reforms and enforcement efforts, including raids. In 1997, the parliament established a separate intellectual property court that has resulted in a more efficient judicial procedures and higher fines. The court began operation in December 1997. In mid-1998, the government produced a letter of intent containing the bilaterally agreed text of an IPR action plan for the remainder of the year. The plan was ambitious, and covered most aspects of IPR. Many components of the plan were implemented during 1998 as the Thai Government showed itself prepared to install more efficient administrative structures and procedures for dealing with piracy. Enforcement has always been the biggest problem. During the first months of 1999 enforcement efforts in Thailand improved dramatically with several successful raids on pirate optical media supply and distribution systems. The momentum has been kept up through the second half of the year. Rights-holders report that police cooperation is better and the frequency of raids is up across the board. As requested by the USG and rights holders, these have included some raids against producers.

Piracy remains a serious problem, however, and it is growing rather than shrinking as pirates from elsewhere in the region have come to set up shop in Thailand. The U.S. pharmaceutical, film, and software industries estimate lost sales at over \$200 million annually. Few persons have served time in jail for copyright infringement. Irregularities in police and public prosecutor procedures have resulted in the substitution of insignificant defendants for major ones and the disappearance of vital evidence from police inventories. Although fewer raids are compromised by leaks from police sources than during 1997-98, this is still a problem. Some trademark pirates running "plush" item factories in outlying provinces have thwarted raids with threats of violence against officials and investigators.

8. Worker Rights

a. The Right of Association: The Labor Relations Act of 1975 gives workers in the private sector most internationally recognized labor rights, including the freedom to associate. They may form and join unions and make policy without hindrance from the government and without reprisal or discrimination for union activity. Unions in Thailand may have relationships with unions in other countries, and with international labor organizations. In 1991, following a military coup, the Thai Government revoked a number of these rights for state enterprise

workers. The Thai Parliament approved a new State Enterprise Labor Relations (SELRA) bill on October 8, 1998. That bill was subsequently rejected by the Constitutional Court on a technicality. In August 1999, after the bill was re-introduced, the House and Senate could not agree on several key union rights provisions. The House then invoked constitutional provisions that will allow it to pass SELRA unilaterally after a six-month waiting period. The Ministry of Labor expects the bill to pass by February 2000.

b. The right to Organize and Bargain Collectively: Thai workers have the right to bargain collectively over wages, working conditions, and benefits. About 900 private sector unions are registered in Thailand. Civil servants cannot form unions. State enterprise employees, essential workers (transportation, education, and health care personnel), and civil servants may not strike. However, they may be members of employee associations. Collective bargaining is unusual in Thailand, and industry-wide collective bargaining is all but unknown. However, representatives of public sector associations and private sector unions do sit on various government committees dealing with labor matters, and are influential in setting national labor policies, such as the minimum wage.

c. Prohibition of Forced or Compulsory Labor: The Thai Constitution prohibits forced or compulsory labor except in cases of national emergency, war, or martial law. However, Thailand remains the target of ILO actions under Convention 29 (forced labor) because child prostitution persists despite recent government moves to step up enforcement of laws prohibiting it, and to cooperate with ILO programs.

d. Minimum Age for Employment of Children: The new 1998 Labor Protection Act went into effect on August 20, 1998. The act raises the minimum age for employment in Thailand from thirteen to fifteen. Persons between the ages of 15 to 18 are restricted to light work in non-hazardous jobs, and must have the permission of the Department of Labor in order to work. Nighttime and holiday employment of non-adults is prohibited. The new national education bill passed in August 1999 gives the children the right to free primary education through grade 12. However, compulsory education is only enforced through grade nine.

e. Acceptable Conditions of Work: Working conditions vary widely in Thailand. Large factories generally meet international health and safety standards, though there have been serious lapses involving loss of life. The government has increased the number of inspectors and raised fines for violators, but enforcement is still not rigorous. The usual workday in industry is eight hours. Wages in profitable export industries often exceed the legal minimum. However, in the large informal industrial sector wage, health, and safety standards are low and regulations are often ignored. Most industries have a legally mandated 48-hour maximum workweek. The major exceptions are commercial establishments, where the maximum is 54 hours. Transportation workers are restricted to 48 hours per week.

f. Rights in Sectors with U.S. Investment: Labor rights are generally respected in industrial sectors with heavy investment from U.S. companies. Most U.S. firms in Thailand work with internal workers' representatives or unions, and relations are constructive. U.S. companies strictly adhere to Thai labor laws and did not experience serious labor disruptions in the last year.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		1,579
Total Manufacturing		1,633
Food & Kindred Products	109	
Chemicals & Allied Products	334	
Primary & Fabricated Metals	70	
Industrial Machinery and Equipment	648	
Electric & Electronic Equipment	243	
Transportation Equipment	24	
Other Manufacturing	205	
Wholesale Trade		1,508
Banking		486
Finance/Insurance/Real Estate		351
Services		42
Other Industries		122
TOTAL ALL INDUSTRIES		5,721

Source: U.S. Department of Commerce, Bureau of Economic Analysis.